

1. Introduction

For most development programmes or organisations in the Philippines, impact assessment (IA) is still a one-off, donor-driven activity that is conducted halfway through a programme or part of post-programme evaluation. This is also true in the field of microfinance, where most Philippine microfinance organisations (MFOs) hold the conventional view that IA and market research (MR) studies are very expensive to undertake and should be left in the care of donors and external consultants. The fact that there are available tools to assess impact, such as the AIMS² and Microsave-Africa tools³ has not done much to change this attitude. This is partly due to limited access to information on these tools, but also to lack of understanding about how these tools can be effectively integrated into operational activities. In addition, although microfinance was established in the Philippines as a poverty alleviation strategy, the sector has mainly focused on scale and financial sustainability.

This article reports on how the microfinance organisation CARD (Centre for Agriculture and Rural Development) has responded to the opportunity provided by the *Imp-Act* programme to raise consciousness of how indicators of client impact can be monitored and assessed. It reflects the realisation that IA is not only a question of employing tools and methodologies, but is about thinking about the context and circumstances in which the assessment is to be conducted. Section 2 provides background information about CARD and the development of its internal impact-monitoring and assessment systems. Section 3 describes a client assessment training workshop, organised with Freedom From Hunger, as a case study of what can be achieved. Section 4 then describes the planned role of the Microfinance Council of the Philippines (MCPI) in sharing these experiences within the microfinance sector. Section 5 concludes by highlighting issues and challenges ahead.

2. Internal demand within CARD for client impact information

Founded as a social development organisation in December 1986, CARD has evolved into an outstanding microfinance organisation that is presently leading other MFOs in the Philippines. In

8. Institutionalising Impact- Monitoring and Assessment of Microfinance:

*Experiences from the
Philippines*

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Table 1: Performance of CARD NGO, 1998–2002

	1998	1999	2000	2001	2002
Number of branches	16	24	27	30	38
Outreach	20,617	28,531	35,704	49,784	100,288
Portfolio (in US\$)	1.6 M	2.8 M	7.3 M	7.2 M	10.0 M
OSS ratio		102%	104%	139%	149.9%
FSS ratio		95%	102%	114%	125.2%

Source: CARD, MCPI

a country with 5.1 million households (2000 estimate) living below the poverty line, CARD's achievement in microfinance services delivery, which has reached out to more than 100,000 households, has been widely recognised. Since taking off with its Grameen-style micro-lending in 1989, CARD has spent considerable time refining the methodology with the aim of achieving the twin goals of outreach and sustainability. A major event in CARD's history came in 1997 when CARD NGO obtained from the Central Bank of the Philippines the license to operate as a rural bank. To date, CARD Bank has established nine branches, while 38 branches continue to operate under CARD NGO (see Table 1).

The CARD group's combined performance leads other MFOs in the Philippines. CARD services are found all over the southern part of Luzon, the biggest and most important island grouping in the Philippines. CARD's longer-term vision is to build a set of mutually reinforcing institutions by 2009, comprising bank, NGO, training centre, insurance company, housing development company and marketing centre. This is CARD's answer to the evolving and ever-growing needs of its clients.

In 2001, an opportunity to bring IA to a higher level of understanding came about through the *Imp-Act* programme. The programme's immediate objective is to help CARD build a social performance assessment system that clearly defines the IA process, including choice of impact indicators, and methods of data collection, analysis and reporting. CARD has tackled many of the problems other Philippine MFOs are still facing in terms of scale and sustainability. Hence it can now seriously commit to meeting its social objectives by putting in place systems and mechanisms that will

track social performance. In embarking on a project under *Imp-Act*, CARD has effectively committed itself to the principle that social performance is as important as financial performance. In putting this commitment into practice, CARD can demonstrate that while there are trade-offs between social and financial objectives, there are also benefits from meeting both and that MFOs can and do have an impact on the poorest and achieve financial self-sufficiency (Simanowitz 2002).

In the initial stages of the project, it was important for CARD to subscribe to the principles being promoted and advocated by the *Imp-Act* global network. This included a greater appreciation of the IA process and understanding of what the process entails. Part of the process was recognising that IA and its outcomes are specific both to the context and objectives of the MFO. It follows that a priority for CARD was to establish local ownership of the process and cultivate trust between and amongst stakeholders. Hence, it sought to avoid reliance on external expertise at the expense of CARD's board, management, staff and clients. The first of these activities was a briefing that oriented CARD staff and management about the *Imp-Act* programme.

Subsequent activities involved reviewing and making an inventory of IA and MR studies conducted on CARD in the past. The objectives of these activities were to:

- (a) Make an inventory of MR tools applied and review CARD's experience with the tools;
- (b) Review CARD's impact areas;
- (c) Compare IA frameworks;

(d) Make an inventory of impact areas, indicators and methodologies used; and

(e) Review how CARD applied results of studies.

The review found that conclusions from impact studies were generally positive. Four out of five impact studies conducted by external parties were in the context of project evaluation, with minimal involvement of CARD staff. They were undertaken on a per project basis, and most were cross-sectional, one-off in nature and limited in geographic scope. Multiple indicators were used, but data was not linked to CARD's regular information system. Impact areas included personal, enterprise and household levels, but none of the studies addressed impact at the community level. There was a mix of qualitative and quantitative methods, with three studies using comparison groups. CARD derived added value from the studies because management made a conscious effort to draw out the implications of the study for improvement, and to translate findings into points of action. However, it was felt that the studies were time and resource-intensive, and would place a very high demand on the organisation if included as part of regular activities.

The review also identified many MR initiatives, which enabled outreach to new branches, and had the potential to lead to new product development and product/service improvement. Most market studies were conducted in-house by CARD's own research unit. There were also some commissioned studies. Tools and methods included surveys and mini-surveys, in-depth interviews, focus group discussions, and participatory rapid appraisals. Most market studies were done on an "as-needed" basis, rather than being a regular and integral function of operating units.

This review contributed to an important two-day internal workshop on IA which was held in the CARD training centre in June 2002. Its aims were: to review and define CARD's impact priorities from client and staff's perspectives; to revisit and revalidate CARD's mission and vision; to determine relevant impact indicators; and to check if these indicators were currently available. The workshop was attended by members of the board,

management, senior and field staff, and CARD clients. To facilitate this process, the following key questions were raised:

- What, in your experience, have been CARD's impacts? What are the main reasons for these impacts?
- What should be the impact priorities for CARD? Why? How do these compare with CARD's present vision and mission?
- Based on identified impact priorities, what indicators can be used? Which indicators does CARD already have information on?

The workshop proved to be effective in establishing ownership of the process as far as various CARD stakeholders are concerned, and in setting the stage for identifying impact priorities for CARD. The following conclusions were arrived at:

- The impact priorities of clients, staff, management and board were more or less similar;
- Only a few of the identified impact areas and indicators were available from CARD's current data collection systems, such as the membership and loan application forms;
- CARD founders' philosophy put heavy emphasis on economic empowerment as a means to other forms of empowerment;
- The board expressed a preference for a system that tracked only three or four impact indicators over time;
- Top management and the board expressed a strong preference for impact information directly useful for improving organisational performance;
- The current data capture forms – the membership loan application forms – can be improved for standardised and categorised responses to improve quality of data and to allow quantitative comparison over time – for example, income estimates, sources of income, estimate of total asset value.

The workshop also revealed a number of issues pertaining to impact. First, CARD is committed to efficiency and low costs, and is engaged in process re-engineering and simplification. Questions were raised over how this should be reconciled with the need for additional information on impact. Second, understanding of impact at the community level, and of how to improve it, was weak. Staff observed that clients faced a “glass ceiling” in their attempts to move out of poverty. They perceived key constraints to be clients’ inadequate skills and lack of access to markets.

As a result of the exercise, and in further consultation with CARD stakeholders, the CARD board approved the use and tracking of indicators in the following core impact areas: housing, productive assets, children’s education and food security. With respect to MR, it was felt that members of the research unit had the necessary skills. Future effort should therefore focus on: (a) defining which activities are to be regular and which ones should be conducted on an as-needed basis; (b) developing manuals for existing tools, training and related processes; and (c) extending skills to use selected tools beyond the research unit.

3. Collecting client impact data

3.1 Development of the IA/MR information system

A major output of this project is a model client information system with CARD as prototype. The system is expected to meet CARD’s needs for client information for IA and MR purposes. The system is in its initial stage of development. It will not be in automated form but features and components of the system should not be difficult to integrate into the regular automated management information system (MIS) of the MFO. The information system will come with a manual that will define the process and system of collecting and analysing client information.

The first component of the information system focuses on impact-monitoring. The impact-monitoring objectives are: to confirm whether CARD clients do experience improvements as a result of membership in CARD’s microfinance programme; and to keep track of the profile of new

clients, to ensure that CARD is staying with its chosen target group. With four impact areas identified as a result of consultations and discussions with CARD stakeholders, the impact hypothesis is therefore stated as:

Continuous access to financial services would lead to concrete improvements in the poverty levels of clients, as indicated by:

- Improvement in the quality of clients’ housing;
- Improvement in the client’s food security status;
- Improvement in access to education;
- Improvement in productive assets.

The impact-monitoring system for CARD further identifies data sources, as well as research and sampling methods, sample size, data analysis and corresponding data tables for tabulation of results. The research method used is a combination of cross-sectional and longitudinal comparison of the four indicators. The profile of new clients will be examined on an annual basis, while impact-monitoring will be conducted every two to three years for other clients.

3.2 Client assessment training workshops

In parallel with the above workshop, and with support from Freedom From Hunger (FFH), the research unit organised two client assessment training workshops: the first in Quezon 2 in November 2001, and a second in Masbate in November 2002. These aimed to expand client assessment capability beyond the research unit, as well as enhance its capacity to conduct similar training without external assistance. In addition, they have provided an opportunity to pilot client assessment activities. In particular, it has already been possible to design an intake form to collect food security and children’s education indicators. The new form has been pilot-tested in several branches and CARD is currently undertaking its implementation in other branches.

The client assessment workshop was organised over a ten-day period, and 18 field staff from eight of the nine CARD branches in Masbate attended. The workshop aimed to build staff skills and capacity to systematically solicit client information through focus group and short surveys, and to analyse the

operational implications of this information. The workshop was undertaken as part of CARD and FFH's collaborative work to build staff capacity and test approaches for assessing progress toward social, as well as financial, goals. It reflects both organisations' commitment to the continual improvement and innovation of services through the systematic learning from members and frontline staff. Three specific operational issues were explored through client interviews and staff analysis:

- Who is being reached by CARD services in terms of poverty level as measured by household food security?
- Why do members leave CARD?
- What factors hinder CARD members from taking and profitably using larger loans?

In each topic area, client comments provided considerable and detailed insight into dynamics important to programme success both in terms of financial performance and impact. The staff's own analysis of the client information identified areas of particular learning as well as specific recommendations for follow-up action. Examples of specific findings by topic area are briefly summarised below. More detailed findings are presented in MkNelly and Alip (2003).

3.2.1 Food security

Field staff in eight of the Masbate branches interviewed a total of 58 new CARD members using a food security scale survey. The ten-question survey took on average 15 minutes to administer. It collects information about the family's food situation and whether, for example, during the last year they had worried about having adequate food, had skipped meals or reduced meal sizes, or limited the variety of what they ate. Field staff believed the survey gave them a more accurate sense of CARD members' poverty than the means test used to screen applicants for their eligibility to join CARD. According to the classification approach suggested by University of California, Davis researchers for the ten-item scale, only five of the new members were classified as completely "Food-Secure", 66 per cent were "Food-Insecure without Hunger", and 29 per cent "Food-Insecure with Hunger".

The Masbate staff was not surprised that, in general, food insecurity was higher in the communities classified as "rural remote" because markets are much less accessible, transportation costs are greater and households' economic opportunities more limited. These findings underscore the importance of the considerable effort CARD as an organisation and individual staff members have taken to provide services in these difficult-to-reach areas. Certainly, the challenge and cost of operating in rural areas is greater, but so is the poverty and subsequent food insecurity.

3.2.2 Client exit

Seven focus group discussions were conducted with clients from relatively "mature" centres to explore why members leave the programme and specifically the reasons related to programme features. In order to assess the degree of client exit, branch information was also reviewed about the number of members resigning from the programme each month, relative to the number of active members. Overall, client exit was estimated to be approximately 25 per cent per annum. Certainly, some of these members are leaving for reasons that have little to do with CARD, for example moving from the area or changes in family situation. However, clients' comments and staff analysis identified a variety of programmatic policies and dynamics that contributed to members' resignations. Client resignation can be divided into categories of either "drop-out" or "push-out". Drop-out is a decision made by the members themselves and often reflects aspects of dissatisfaction with programme policies or dynamics.

The programmatic features that were identified as significant points of dissatisfaction were centre repayment problems, the system of mutual guarantee, and members' lack of access to compulsory savings. It seems that over time the influence of these factors intensifies, presenting a particular challenge to the relatively mature branches. Push-out reflects the greater influence of the centre co-members, often in agreement with the members themselves, in the exit decision and is typically triggered by members' difficulty with repayment. In the words of one centre chief, "poverty" explains this type of client exit. Again,

there are important time dimensions to this dynamic in that CARD members are vulnerable to internal shocks such as illness in the family and external shocks such as poor agricultural years. So over several years, it is not uncommon for these types of economic crises to occur in the life of the CARD member.

3.2.3 Loan size

Additionally, seven focus groups were conducted to explore whether CARD members were reaching a glass ceiling on their ability to profitably use larger loans and if so, why? In the centres where the focus groups were conducted, very few members were found to have taken loans greater than P30,000 (\$566)⁴ even though most of these centres were from three to six years old. It was found that the major inhibitor for members taking relatively large loans was their fear that they would have difficulty with repayment and would cause problems for their centre. For example, it seemed common that members would divide their loans across several projects and uses, such as rice cultivation and food vending or hog-fattening and education expenses, or that they would purchase an asset. Members considered carefully whether they would be able to meet the weekly repayment of a larger loan from their projects that earn steady income or whether they could meet the repayment obligation from alternative sources.

CARD staff also exhibit considerable influence over the loan amount that members ultimately receive and they too are highly motivated to try and reduce the risk of repayment problems. Again, secondary quantitative programmatic information was also compiled to estimate the gap between loan amounts CARD members requested and the amount received. This gap can be thought of as a rough estimate of CARD staff's discretion in determining loan size as compared to clients' own demands. Based on a sample of loan information from five branches, the loan amount given was approximately 75 per cent of the amount members requested. Staff identified a number of possible adaptations to current policies as well as new services that would potentially allow members to use larger loans successfully and more rapidly. Policy adaptations included more rapid processing of new loans in terms of the time needed for

inventory assessments and possibly applying greater technical officer discretion to the requirements of member attendance and punctuality. New services included recommendations for a variety of types of training in project and financial management, a more rapid loan-size progression for centre members providing collateral, and the possibility of additional services such as inventory credit.

3.2.4 Overall assessment of the workshop

Throughout the workshop, visits to centres and interviews with members, the high degree of CARD staff commitment was very evident. Frontline technical officers and managers work very hard to meet branch and individual targets for membership, repayment and financial performance. While implementation challenges certainly exist, the dedication of all levels of staff is clear. Also evident is the active collaboration among the various levels of the organisation to address programmatic challenges. Audits of the Masbate branches revealed strong loan portfolio and financial performance, which is reflected throughout the rest of the organisation. Finally, interviews with clients highlighted the important and significant role CARD services play in assisting clients to improve their quality of life and economic security. CARD members readily described specific ways that CARD services had helped them to increase and/or diversify their families' incomes, build productive assets and afford further or higher education for their children.

Despite and, to some degree, because of its success, CARD as an institution is committed to the continual improvement and innovation of services. Systematic learning from clients is seen as an important avenue for inspiring this continued improvement, and this is the chief function and role of the research unit. The client assessment workshop aimed to further build and expand staff capacity to engage in this type of learning, as well as further involve frontline staff in the analysis and problem-solving of the issues and/or obstacles clients identify. Consequently, a positive outcome of the workshop was the identification of those methodological or operational procedures that

Table 2: Outreach and portfolio of reporting MCPI members (2002)

	Number	Total outreach	Total portfolio (US\$)
Financially self-sufficient MFOs	5	196,626	16.9 M
Non-FSS MFOs	10	186,046	12.6 M
All MFOs	15	382,672	29.5 M

Source: MCPI

potentially undermine CARD's financial and social impact goals. Some of the fundamental challenges raised by staff and clients through the workshop included the following:

- The system of mutual guarantee and discipline of 100 per cent repayment are central pillars of CARD's methodology, but over time they become major points of client dissatisfaction and, possibly, even an obstacle for maintaining service to the poorest members;
- Clear, consistent and strict policies regarding repayment, attendance and punctuality are essential to maintaining centre and repayment discipline, but to what degree should technical officers apply discretion based on their knowledge of the situation and their desire to offer good-quality and timely services to the larger group?
- Over time the lack of access to compulsory savings builds an incentive to leave the programme but it is also perceived as an important loan guarantee for the individual member and the centre in general;
- The poverty and need in the rural, inaccessible areas is greatest but the economic opportunities and returns to both members and CARD are fewer.

4. Sharing experiences through MCPI

It is hoped that benefits from CARD's participation in the *Imp-Act* programme could be shared more widely within the Philippines, hence the Microfinance Council of the Philippines (MCPI) was taken on from the outset as a project implementor. Through MCPI, a national network

of 29 MFOs, the project hopes to disseminate the goals of the information system. One of these goals is to institutionalise the conduct of impact-monitoring and MR in MFOs. Recognising as well that national networks can be venues for effective learning and sharing of experiences, MCPI hopes to raise MFOs' awareness of the benefits and impact of integrating IA into regular monitoring systems. Under the project, MCPI and CARD are also expected to build in-house capacities of MFOs in conducting proactive IA and MR.

MCPI is gaining a thorough overview of the processes taking place at CARD. Critical to the project will be the documentation of the process and sharing lessons learned with the rest of the industry. Indeed, MCPI is committed to facilitating the process of institutionalising impact-monitoring and assessment within its member MFOs by showcasing the CARD model and experiences. Copestake (2002) describes this as an intervention model that builds on a piloting process to promote impact-monitoring and assessment. However, MCPI is also reviewing the scope for carrying out such work for its members, given that issues of financial sustainability limit their ability to invest in their own internal capacity. Only five out of 15 reporting members of MCPI, including CARD, had achieved financial self-sufficiency at the end of 2002 (see Table 2).

Under the *Imp-Act* programme, MCPI will be actively engaged in promoting the IA/MR client information system and in building MFO capacities to undertake IA and MR. The network hopes to extend benefits from the project beyond CARD and MCPI's member MFOs, primarily through shared learning. As one of the main sources of information on microfinance, MCPI is also keen to meet the demand for aggregated impact findings from independent impact studies.

Industry-wide information on impact is very scarce and is limited to a few individual MFO-level impact studies. This can then pave the way to a set of quality standards in IA that can significantly improve credibility and reliability of impact information.

5. Issues and challenges

5.1 CARD

The immediate challenge for CARD is to make the IA/MR client information system work for the institution. Completed activities under the *Imp-Act* programme have done much to jumpstart the institutionalisation process at CARD, but making the information system work will be critical in terms of pushing forward the goals of the project. Important to the process of institutionalising IA and MR are IAs, performance-monitoring and making better use of current processes as information sources. There should also be efforts to convince staff about benefits of IA and MR activities relative to the costs and staff time as most of them still grapple with the pull of meeting financial performance targets. In building capabilities of the field staff in collection and analysis of client information, CARD hopes to further build ownership of the process and inculcate a culture of learning from clients. However, CARD is also learning that not all field staff has the aptitude for data gathering and analysis.

Among the list of issues in IA enumerated in a previous section, CARD remains challenged on how to fit its impact goals into the wide scheme of simplification and re-engineering presently taking place at CARD. Questions to be addressed are:

- What has been CARD's impact at the community level? How can CARD increase its community impact?
- What are the constraints to moving CARD clients out of poverty?
- Why do many clients limit their loan amounts despite eligibility to borrow more?
- What are the constraints to further growth of clients' enterprises? To what extent are lack of skills and limited market access a factor?

- How can CARD better capture information on delinquency and dormancy causes as input to better decisions?

Later on, CARD would want to incorporate client impact information, both qualitative and quantitative, into the MIS. Likewise, CARD is committed to sustain and meet the training needs of field staff, particularly for those who will form the core of what Women's World Banking refer to as the "Flying Team". The members of these teams are trained researchers, who can be called upon when there are pressing operational issues that require investigation on a local or broader scale. These teams are useful in that they can often tackle problems at their source before they get out of control.

5.2 Issues and challenges for MCPI

How impact-monitoring and assessment can be promoted and improved through networks is a significant challenge for MCPI. Most of the players in the local microfinance industry still narrowly view IA and MR as costly undertakings that should be externally funded and controlled. Their immediate concern is affordability of IA and MR, which explains their inclination to undertake IA out of capital grants and not to bother with MR at all. Critical in this respect is the quality of promotion and advocacy, i.e. how best to share and disseminate CARD's experience in IA and MR under the project, and how best to emphasise that benefits from impact-monitoring and MR significantly exceed the costs. Effective promotion of institutionalised IA and MR will require considerable cooperation from MFOs, given that the IA/MF client information system needs to be adapted to suit the client information needs of each MFO, which will require careful planning and adherence to the same process that CARD has been through.

Building the MFOs' internal capacities to undertake IA and MR will also be an important challenge for the network. Critical to this is raising the level of appreciation of tools and methodologies, and improving skills in data analysis and interpretation.

In the area of collaborative IA, the challenge is making the CARD/MCPI approach work in

promoting and supporting impact-monitoring and assessment among network members. MCPI is envisioning a membership that is internally capable of undertaking IAs and MR, and is able to share or provide credible impact information that, when aggregated, can provide industry-wide information on the impact of microfinance.

5.3 Conclusion

From CARD and MCPI's experience so far under the *Imp-Act* programme, there have been many valuable lessons in terms of institutionalising the IA process within MFOs. CARD and MCPI are also

learning that, beyond internal capacities, there should be a serious commitment on the part of MFOs to institutionalise impact and client-monitoring. This commitment must be grounded in the belief that learning from clients is critical in providing effective microfinance services, improving organisational performance and ensuring institutional growth and sustainability. In the long term, MCPI and CARD would ideally like to see a Philippine microfinance industry that views social performance no differently from financial performance, and that poverty impact can give meaning to achievements in scale and sustainability.

Notes

1. The article was prepared for the *Imp-Act* Global Meeting, 5–8 May 2003, Polokwane, South Africa. It has benefited from work carried out under the *Imp-Act* programme by Professor Ronald Chua of the Asian Institute of Management (AIM) under *Imp-Act*, and editorial comments from James Copestake.
2. AIMS (Assessing the Impact of Microenterprise Services) is a USAID-sponsored research project in microfinance impact assessment. A manual of five tools for use by practitioners was produced by the project in collaboration with the US Microenterprise Network, SEEP.
3. Microsave-Africa has adapted a range of participatory tools for use by microfinance practitioners in market research and appraisal. The tools are useful in helping MFOs better understand the needs of their clients, and require intensive training to be used effectively.
4. As of July 2003, 1 Philippine Peso = \$0.019

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